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WHY BALANCE THE BUDGET?

by Edna Lonigan

There is still room for comment on Secretary of the Treasury Snyder's recent surprising statement that: "It obviously is not possible to say that under all circumstances the budget should be balanced."

This statement, to the Joint Committee on the Economic Report, is sharply at variance with the position taken by Secretary Snyder when he took office in 1946. He said then: "It is the responsibility of the Government to reduce its expenditures in every possible way, to maintain adequate tax rates during this transition period, and to achieve a balanced budget -- or better -- for 1947." He said again, last week, "the time to have a balanced budget is now".

Evidently the Secretary of the Treasury does not want to indorse loose fiscal policies. He is covering a somewhat equivocal position with a cloud of reassuring words. He says: "The general economic welfare of the country should be the guiding principle in determining for any given period whether the Federal budget should be balanced."

General economic conditions are as fluctuating as the weather. So this "guiding principle" leads direct to a most ominous conclusion. Because production and employment are variable, Mr. Snyder argues that government expenditures should be made equally variable. But delicate changes in timing and amounts of public spending cannot be made by statute, so it follows that the control of spending must pass to the executive. This means that the Power of the Purse -- the hard-won right of the people to decide through their representatives how much of their earnings government may take -- is lost.

We have in Mr. Snyder's two sets of official statements the two fundamentally opposing ideas of how government can best serve the general welfare. On the one hand there is the belief that governments can best help economic progress by keeping expenditures low and predictable, and by reducing them further when hard times cause a fall in revenues. The alternative course is the doctrine of the "new economics"; governments should spend large sums wherever there is a "need".

The first principle underlies the historic practice of England and the United States. The second is the historic practice of the Continental nations, given economic dignity after 1918 by J. M. Keynes.

Any attempt by Secretary Snyder to compromise these opposites is the more significant because, in the bitter ideological battle that goes

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on within Big Government, he has been almost the last supporter of the "balanced budget". Wavering by Mr. Snyder indicates that the Truman Administration is becoming wholly committed to deficit financing through printing press credit.

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The heart does not leap up when one beholds the words "balanced budget". But the dull unglamorous phrase nevertheless reveals a deep concern for the true welfare of those who work for a living.

The case for a balanced budget rests on the realization that, when the economic system slows down, something that money manipulation cannot cure has gone wrong. The problem is to find what is wrong and the American way has been to expect this discovery from the trial and error of countless individual producers. Government spending can only relieve the symptoms of a depression.

The aim of statesmanship in a depression, then, is to make adjustment as speedy as possible, without interposing the false hope that people can actually avoid the pains and penalties of their own misjudgments. It is as dishonest to call this a do-nothing policy, as it would be to say that a doctor cares nothing for his patients if he refuses to give them quick-acting drugs, but tells them to stop eating sweets and to walk two miles before breakfast.

We might say that the difference between the budget balancers and the "new" economists was well indicated in a cartoon where a stoutish dowager looks at her doctor, and says, "Diet and exercise, doctor! I thought it was going to be something simple like an operation!"

The classical example of sound economic policy was our slack period of 1920-21, when in a few months we sloughed off all the excesses of our post-war speculation in rubber, silk and other commodities, and made the difficult turn to a new industrial upswing. Europe, with its planned economies, could not then discover how to start a new forward movement. If we had let government planners guide our destiny in 1920, they would have kept prices of rubber and steel "stable"; that is, sky-high. We should never have developed the cheap automobile, the radio, the electric ice-box, or the oil-burning furnace. Our young men, instead of getting jobs in Detroit and Akron, would have rotted on the dole in Fall River and Mobile, as the British rotted on the Tyneside.

The record shows that where nations "balance their budgets", and thereby face unpleasant results of earlier mistakes, they go through a sharp crisis, and then start a new upward climb. Whenever they turn to the opiate of easy money, they avoid harsh readjustment but instead enter a period of decadence, as new employment and real income fall.

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Government "management" of money is simply skillful and deceptive legerdemain. When the budget is unbalanced the government must still collect the deficit from the people, but it does so secretly, not openly. The current cost of living index of the Bureau of Labor Statistics is 168.5, on the basis of 100 for 1935-39 costs. This means that while a $750 E Bond, bought in 1939, is now redeemable for $1,000, the actual purchasing power of that $1,000 has shrunk to $594 in terms of immediately pre-war purchasing power.

Mr. Snyder tells us what government debt really means to you and me. When he took office, savings banks had taken 64 per cent of their assets out of productive investment, given the money to government, and put certificates of debt in their place. Insurance companies had removed nearly half their earning assets. Social Security of course turns over all the hard money for its reserves to government and puts IOUs in its place. Commercial banks had converted 71 per cent of their assets. Private business, local governments and others had taken $32 billion out of production and turned it over to government.

This simply means that the great financial institutions of the country had taken huge blocks of the savings of past generations out of hard investment in farms, homes and railroads, for government to spend. The towering financial institutions looked as solid as ever, but from one-half to three-fourths of their heavy timbers had been removed and temporary scaffolding put in their place.

Under a balanced budget, the government which borrows capital assets in wartime pays them back promptly, and takes the shaky timbers of war debt out of banks and other trust institutions. Our government did that after 1918, and the American people thereupon financed the automobile industry, nation-wide hard roads, new suburbs, and millions of new homes. Mr. Snyder tried to follow a similar policy, but apparently is now overruled.

If the Fair Deal goes on with deficit financing it must continue to eat away at the substance of our banks and insurance companies. Hitler and Mussolini used this method to confiscate private property without attracting attention. They left everything nominally in private hands but actually milked it dry. Savings banks, private firms, local governments were left standing, but vast quantities of the savings of generations were in effect handed over to the central power.

Could it be that our planners have also planned it that way?

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All the wonderland of Keynesian economics serves to bemuse the public while a few men in government strip all savings from their private owners. Banks and insurance companies, whose "reserves" the government has in effect spent, are not going to criticize government financial policies. They want to keep up the "price" of bonds, to avoid showing the loss in red ink. Labor, farmers and business men are won over by more spending.

The inner circle has learned how to use all the machinery, the jargon, and the "climate" of investment finance actually to deprive private owners of the investments they think they still control. Even as astute a man as Secretary Snyder seems to be misled by deceptive words.

Once the government starts juggling credit, the dollar begins to lose all meaning. It is as though the textile industry had quietly changed to yardsticks first with 34 inches, then 32 and finally 18 inches, meantime keeping all production and sales statistics in "yards". Of course the figures would get bigger and bigger -- like our national income. Of course the public would be badly confused. But would they cure the trouble by asking for more juggling with the yardstick?

The comparison points to the remedy. Why do we bother to have a standard inch and yard, preserved so carefully at the Bureau of Standards that not even an air current or a change in temperature can alter it? The answer is that, without confidence in the yardstick, people will not trust each other enough to trade.

Isabel Paterson tells how, when Sir Isaac Newton was director of the mint, some believer in the "new" economics came to him with a wonderful bright idea for increasing the national wealth by diluting the coinage. Newton thought about it and then said, "But in mathematics, if we do not have a reliable unit, we cannot count."

If money is not honest, if it is constantly being manipulated by "government management", we can no longer count. Business will stop taking chances and private employment will slow down. Then the government will invent various kinds of made work. Before the last dollar of capital is gone, farmers, workers, doctors and business men will find themselves as securely harnessed as the Russians, in a Labor army, under central control, without enough private resources ever again to struggle free.

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Not Merely Gossip *A Supplement to* Human Events Vol. VI, No. 49

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By Frank C. Hanighen December 7, 1949

PAPER MONEY: When you land on the Continent at Lisbon you begin to run into the phenomena of currency inflation. As you penetrate the Old World, a veritable flood of paper money rises and engulfs not only your hands but your senses. At least this aspect of Europe, new to us for it is ten years since we have been here, struck us forcibly and even after a month of travel has not worn off. The well-ordered little fief of Premier Salazar suffered comparatively little from the evil. But, entering Spain one plunges ankle deep in a pile of crackling "lettuce". Under the dim-out of Madrid (power and light are short because of the drought), the harassed traveller fumbles helplessly with great fistfuls of pesetas of denominations from one to one thousand. A 100-peseta note just about pays for your lunch. And here in Paris, a 100-franc note hardly suffices to reimburse the taxi driver and leaves very little change after offering one as payment for a package of cigarettes.

"It all comes down to this", remarked a former Parisian editor, as we discussed the matter, "we are living beyond our means. The French Government is actually running a deficit of about 3 billion francs per day. Marshall Plan money enables us to subtract two billion from that figure. But the rest, one billion per diem of deficit is handled by outright currency inflation." We read in the French papers of deficits incurred by the nationalized industries -- and how many Frenchmen now want to turn these industries back to private hands! Yesterday, one Paris daily had this headline: "To soften the effect of the price increases on sugar and coffee, the Government now proposes to subsidize a price reduction for butter." We cannot help dwelling on these facts as we take a large handful of engraved paper out of our pocket; and as we take note of our own growing Government deficit in the States.

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PORTUGAL: But back to Lisbon, where we started our wanderings. We arrived there on the eve of the general election, for members of the national legislature. In this country, designated as sufficiently democratic to receive ECA aid, we sought vainly for some visible evidence of an election campaign, a few posters, a husting or two, or some mane-shaker on a street corner. Our local friends gently explained that the public regarded the election as nothing more than a good joke. A single list of candidates of the Government party (with the exception of two tiny constituencies where opposition candidates were permitted) was the foreordained victor.

But did not Salazar hold free Presidential elections last February with a real live opposition candidate and all that? He did, although the opposition figure withdrew on the eve of the balloting, protesting that the elections were not freely conducted. But, why were they held? There are those who say that Salazar wanted to fortify his case for participation in ECA help and MAP. And other observers claim that Salazar wanted to "smoke out" Communists and Socialists, who did appear and did back the opposition candidate. Once these were in the open, and identified, he was able to deport them to the colonies after the election was over. We heard one foreign observer in Lisbon say that if ECA help were contingent on the existence of habeas corpus in Portugal, there would be no ECA dollars rolling into Lisbon. Yet Mr. Acheson lays great stress on this qualification for membership in the ECA club of "democratic nations" -- obviously to bar Portugal's neighbor Spain.

We can report no visible upsurge among the stolid folk of Portugal. Apparently they are reasonably content with things as they are, under Salazar, in their truly lovely country. Lisbon's gray beauty and the little gem of the beach suburb,

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Estoril, may well be capable of stilling any political querulousness. In Estoril live the "Four Kings": the pretenders to the throne of Portugal, France, Romania and Spain. The latter is Don Juan of Bourbon whom even Spanish Socialists now want to place on the throne, replacing Franco. But, so seductive is Estoril (according to one version) that Don Juan lingers on and takes no definite steps which might land him in Madrid. One must assume risks and make sacrifices to rule such a dangerous country as Spain. It may be that Estoril provides the answer to the riddle of the Spanish Succession.

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BLACK MARKET: We cannot leave Lisbon without some mention of one of the biggest of traffics -- black market currency. Our travelling companion went up to a desk in a Lisbon business establishment. He presented a note of introduction and counted out $150 in U.S. bills. The gentleman behind the counter smiled and wrote on a card the following message, which was to prove magic: "Dear Jean: Please deliver to the bearer, Mr. Smith, 6.3 grams of the specified product. Affectionately, Karl." After arrival in Madrid, we went to the address of Jean, and "Jean" who dealt in -- let us call it wolfram -- counted out 6,300 pesetas, at the rate of 42 pesetas to the dollar. As we entered our hotel lobby, another American friend who had just registered for a room came up and said, "A mighty fine welcome here. That bell boy just offered me 38 pesetas to the dollar." The official tourist rate is 25 pesetas per dollar. Thus, the inexorable ways of the money market.

I do not profess to know exactly how the process works. It is said that the actual exchange is consummated in Tangiers, the international city across the Strait of Gibraltar from Spain. In any case, someone, somewhere, wanted dollars badly enough and foresaw sufficient profit ahead, to make a deal at near 42 (allowing for a middleman's commission). And someone else was constrained to do business at the rate of 38 (probably allowing for several middlemen). Of course, Spanish police remain vigilant, and a few hours later we heard of a police raid which had netted $200,000 in U.S. currency. It may well have happened. Neverthless, the sieves of commerce are numerous, nay inevitable, and so some people, somewhere, are always saying, "We shall make money, by ignoring the official rate and selling at 38 or 40, or 42 to the dollar." And that is a remorseless phenomenon which even Sr. Suances, Spanish Minister of Commerce and Industry, and the terror of business men, cannot stop. A few days later, we found our American businessman companion in a deep reverie. He had some orders lined up, but how could he get the money out of Spain, in payment. "Well", he said, "what goes in, must come out. If there's a Lisbon-Tangiers-Madrid route, then there must be a Madrid-Tangiers-Lisbon route." Maybe our compatriot found it.

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JUNKET: In Madrid, we encountered the Congressional junket in situ, and we must confess that this one, at any rate, merited praise rather than the customary condemnation. It was not, however, warmly welcomed by many Americans in Madrid. Indeed, we have rarely heard such nonsensical criticism as was poured on these visitors; they received a raking fire from two sides. Americans in the Spanish capital sympathetic to the Franco regime attacked the Senators because they spent in all only forty hours in Madrid. On the other hand, those compatriots critical of Franco asked bitingly why the group came at all.

The party was a sub-committee bent on study of the spending of American funds in Europe. It comprised Senators Thomas (Okla.), Chairman; Maybank (S.C.); Robertson (Va.); McClellan (Ark.); Chavez (N.M.); Thye (Minn.). Senator Thomas is not exactly our favorite Senator. But we can see no reason to take exception to his decision to visit Spain nor his conduct while there. Spain does not receive American aid and therefore it would have been unfitting for the Senators to curtail

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visits to ERP recipient countries in order to prolong their stay in Spain. Yet, Spain deserved a visit, however short, because Spanish aid is a moot question on Capitol Hill which may be accorded some lively debate in the coming session. For instance, Senator Maybank is Chairman of the Banking and Currency Committee. He is therefore in charge of a pending resolution before his committee calling for a loan to Spain -- the Connally resolution. Maybank says it will be given serious attention after the first of the year. All in all, it was fit and proper for the Senators to make the trip to Madrid to look into the matter.

So far as we could see they tried to pursue their inquiry diligently and in a dignified way. We were present one afternoon at a private social function which the Senators all attended. For several hours, they were closeted with the Minister of Industry and Commerce, Sr. Suances, and a group of Spanish business men and bankers. After the meeting was over, reporters learned that the participants had thoroughly canvassed the whole economic situation and the possibility of an Export-Import loan: the Spanish application for credits for cotton, machinery, fertilizer, etc.; the American demand that every dollar loaned be watched by American officials to see that it would be well spent. Reportedly, an agreement was reached. At any rate, the American Senators now have something to go on, when the matter comes up in Congress again. If this be a typical "junket", let there be more junkets.

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A PROUD PEOPLE: Despite the obvious craving of Spain for dollars, we may be making a mistake in considering only this factor in dealing with Spain. There is also the matter of Spanish pride. When we arrived in Madrid, Spaniards mischievously asked us: "Will we have to turn Communist, or at least dissident Communist, to get a U.S. Government loan?" And: "We are interested in your new love, Tito." The tone was that of banter, but behind it were some hurt feelings. We may stumble badly if we overlook the passionate pride of the Spanish nature. One has to visit Spain to clearly realize the importance of this Spanish characteristic. It is an element which you note in the physical attitude of the poor man in a beret selling papers on the corner, as well as in the rich man sitting in a club window on the Gran Via. It appears strikingly in the almost fierce hauteur of the posture of a flamenco dancer, or of the matador in the bull ring. We don't think this should be laughed off, when the State Department makes a statement on Spain.

It is, in part, this Spanish pride which unfortunately reinforces the highly conspicuous isolation of Spanish culture today. This Spanish reaction of course in many instances is a result of political and economic circumstances, but it accentuates and exacerbates a situation in which Spain is turning its back on what is left of European civilization. For instance, we were much impressed by the fact that English and French are more rarely used in Spain today than formerly. In 1935 we visited a world-famous book publishing house and found the editorial staff eager to display their fluency in these tongues, to show their familiarity with current literature in London, Paris and New York. Last week we visited the same editorial sanctum. The old staff was no longer there. New, young men had taken their places; polite, but not visibly regretful of their ignorance of English and French. They explained a little coldly, in Spanish, that lack of foreign exchange prevented the house from buying rights of foreign books. Practical considerations of course do play a part in this situation; but a big factor is the relapse of the Spaniard into an old traditional attitude -- suspicion of, and a turning away from, things foreign.

This is but one aspect of the highly complicated story of Spain today. It sheds no light on the situation to report Franco as a wise, benign leader at the head of a progressive and successful regime; nor to picture Franco Spain as one huge concentration camp, gloomy with tyranny and ready to break economically and politically. The picture is neither black nor white -- and it takes a deal of telling.

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Book Events

Western Political Heritage, by W. Y. Elliott and Neil A. McDonald. New York: Prentice-Hall. Trade edition $9.00. Reviewed by J. M. Lalley.

This work, which comes to just about a thousand pages, appears to have been prepared primarily as a textbook for advanced classes in political science and for courses in the history of ideas; but its content and arrangement make it an excellent work of reference for the general reader in these fields, and it also affords a valuable commentary and supplement to such treatises as The Political Tradition of the West by Mr. Frederick Watkins and The Liberal Tradition by Professor Orton. The Messrs. Elliott and McDonald have sought to disclose in some detail the complex interaction of historical forces and metaphysical thought in the development of European and American political institutions. The historical narrative, which appears to be mainly the work of Professor Elliott, serves also as an introduction and critical analysis to carefully selected readings from the political philosophers of each epoch considered. The authors are at pains throughout to emphasize the importance of political myths, that is to say the influence of ideal concepts of the State and Society upon actual political conditions.

Thus the development and decline of the Greek City-States are examined in relation to the ideas set forth in the Republic and the Laws of Plato and the Politics of Aristotle and the latter in turn in its relation to the doctrines of the Nicomachean Ethics. The evolution of the Roman City-State into the Imperium and the concurrent development of Roman legal institutions are considered in relation to Polybius' description of the republican constitution; the influence of the Stoic doctrine of a natural law and the ethical precepts of Christianity are examined in relation to the Institutes of Justinian. And so on down to the Leviathan, the Second Essay on Civil Government, the Social Contract, the Wealth of Nations, the Communist Manifesto and to contemporary pronouncements by M. Spaak, Pope Pius XII, President Truman, and Professor Elliott himself. Here and there passages from some modern historian are interpolated, as for example Jenks on the development of medieval laws and Burckhardt on the rise of the secular State.

What distinguishes Western political history is the constitutional concept of the State. The Greek contribution to constitutionalism was the idea of citizenship, that is of direct participation of the governed in the affairs of government, and the effort to find some stable equilibrium of power among the contending social interests. The idea, however, of the rights of the citizen against the State is of Roman development, arising under the influence of the doctrine of universal natural law. The notion that rulers as well as ruled are bound by the organic laws of States was strengthened by the doctrine of the "Two Swords", and the interrelationships of temporal and spiritual authority. Again, the origins of representative government are to be found in the feudal system, and those of modern parliamentary systems in the efforts of the English nobles to enforce the Great Charter against the Crown. The concept of national sovereignty arises with the Reformation and the effort of both Catholics and Protestants to enlist the aid of temporal sovereigns; and the revival of natural law and the principle of separation of Church and State from the efforts of religious minorities to secure their liberties which obtained an ideological support from the neo-Stoic religion of deism. But throughout all these mutations, we are told, two constants may be perceived. These are contrasting and irreconcilable concepts of human nature; that is, of man as the helpless creature of his environment, and of man possessed of a will that permits him to reshape his political environment according to his own notion of justice. These concepts, according to our authors, have found ultimate political expression in the present world-wide conflict of constitutionalism and Communism.

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